

Project CONGRESS
Materials Prepared for the Board of Directors

November 19, 2001

OCC 005324

Banc of America Securities



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Transaction Overview

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Transaction Overview

Key Transaction Terms

Term	Comments
Form/Structure	WATER acquires CONGRESS via merger with wholly-owned subsidiary of WATER
For-Profit Conversion	<p>Concurrently with the merger, CONGRESS (a not-for-profit company) will convert to for-profit status and will issue 100% of its outstanding capital stock to certain tax-exempt entities (the "Foundations") in accordance with applicable laws, at which time the Foundations will be the sole shareholders of CONGRESS</p> <ul style="list-style-type: none"> ◆ Foundation has already been created in Maryland ◆ Conversion may require creation of additional Foundations in Delaware and District of Columbia, and approval of insurance regulators in each jurisdiction (including U.S. Congress)
Purchase Price	\$1.3 billion of total consideration
Form of Consideration	<ul style="list-style-type: none"> ◆ Not less than \$450 million in cash but up to entire purchase price, at WATER's option ◆ \$850 million in WATER stock (or less if cash portion is greater than \$450 million) ◆ Fixed price structure for stock consideration <ul style="list-style-type: none"> • Number of WATER shares to be issued based upon WATER's 20 trading day average stock price ending on the 5th trading day prior to closing • Number of WATER shares issued adjusts with WATER stock price to maintain \$850 million (or other) value as long as WATER stock is above \$70 per share • WATER must maintain \$850 million value; if WATER's stock price at closing is below \$70 per share, WATER has the option to issue a subordinated note to maintain the \$850 million value
Subordinated Note	<ul style="list-style-type: none"> ◆ Callable at par at any time at WATER's option ◆ Coupon set to be at interest rate that would value note at its principal (face) amount ◆ Subordinated to all existing and future indebtedness except for WATER's zero coupon convertible subordinated debt ◆ 3-year maturity
Accounting Treatment	Purchase accounting with \$275.3 million of intangibles amortized over a blended period of 26 years (\$6.2 million of which is tax-deductible)



Transaction Overview

Key Transaction Terms (continued)

Term	Comments
Board of Directors	WATER Board to include one CONGRESS director
Key Conditions to Closing	<ul style="list-style-type: none"> ◆ Conversion to For-Profit Status ◆ WATER Shareholder approval (if necessary) ◆ Approval of Maryland, Delaware and District of Columbia regulators, Blue Cross Blue Shield Association and U.S. Congress ◆ No Material Adverse Change ◆ Hart-Scott-Rodino clearance ◆ No litigation challenging transaction ◆ No materially burdensome conditions imposed by regulators
Break-up Fee	\$37.5 million (2.9% of equity value)
Key Termination Rights	<ul style="list-style-type: none"> ◆ Fiduciary out for CONGRESS Board of Directors, subject to 7-day right to match Superior Proposal ◆ Either party may terminate if WATER shareholders fail to approve transaction, if such approval is necessary ◆ Drop dead date of 3 years from execution of definitive agreement ◆ CONGRESS has walk away right if average WATER stock price at closing below \$50 per share
Timetable	<p>Formal WATER Board approval: November 19, 2001</p> <p>Formal CONGRESS Board approval: November 20, 2001</p> <p>Execution of Definitive Agreement and Transaction Announcement: Expected November 20, 2001</p> <p>Expected Closing: 12-36 months after announcement</p>

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Transaction Overview

Implied Multiples of Proposed Transaction

(\$ and Total Membership in millions, except per share data)

CONGRESS Purchase Price of Equity			\$ 1,300.0	
	Plus: Total Debt ^(a)		\$ 9.1	
	Less: Excess Cash & Equivalents ^(a)		(53.9)	
	Enterprise Value		<u>\$ 1,255.2</u>	
	Plus: Transaction Fees ^(b)			152.5
	Adjusted Enterprise Value			<u>\$ 1,407.7</u>
Enterprise Value as a Multiple of:		Statistic ^(c)	Enterprise Value	Adjusted Ent. Value
Operating Revenue	2001E	\$ 4,038.5	0.31 x	0.35 x
	2002P	4,450.1	0.28	0.32
	2003P	4,910.4	0.26	0.29
EBITDA	2001E	\$ 143.7	8.7 x	9.8 x
	2002P	186.7	6.7	7.5
	2003P	222.7	5.6	6.3
EBIT	2001E	\$ 105.4	11.9 x	13.4 x
	2002P	141.7	8.9	9.9
	2003P	172.7	7.3	8.2
Total Membership	September 30, 2001	3.102	\$ 404.6	\$ 453.8
Equity Value as a Multiple of:				
Net Income	2001E	\$ 98.0	13.3 x	13.3 x
	2002P	119.2	10.9	10.9
	2003P	147.9	8.8	8.8

(a) Projected as of December 31, 2001 as per WATER and CONGRESS Managements.

(b) Includes transaction fees, severance costs, change of control provisions and other merger related costs.

(c) Projected and historical data as per WATER and CONGRESS Managements.

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